

## Research predicts change in HF operational model

6 Jan 2009

In a white paper released by Paladyne Systems, a solutions provider for the hedge fund industry, forecasts a significant shift in the way hedge funds will manage their infrastructure and operations in 2009. Paladyne predicts that hedge funds will aggressively explore and implement turn-key outsourcing strategies as a solution to the operational and cost challenges caused by the financial crisis and the reshaping of the prime brokerage landscape.

In its paper "**Outsourcing Trends in the Hedge Fund Industry**," Paladyne identifies a fund manager's current challenge of having to demonstrate comprehensive operational control in the face of redemptions, cost pressure and lower fees, and predicts outsourcing as the best viable solution. The paper defines a "turn-key" hosting provider as a combined solution of software, hosting services, and support, and predicts turn-key hosting to be the wave of the future for fund managers, fund administrators, and prime brokers. According to the paper, there is no need for fund managers or service providers to incur the costs of building complex infrastructure, when lower cost and more comprehensive outsourcing solutions are available in the marketplace.

*"The current environment represents a perfect storm for hedge fund managers, as investor demands for transparency and operational reporting are increasing, management and performance fees are decreasing,"* said Sameer Shalaby, CEO of Paladyne Systems. *"In response, comprehensive hosted solutions and specialized service providers will be the driver of a trend in which fund managers shift away from building technology and staffing infrastructure and move aggressively to outsourcing solutions in the areas of IT, software, and operational support."*

As the outsourcing trend gains momentum in 2009, the paper predicts an increasingly important role of fund administrators. In particular, fund administrators will be required to expand their services offerings to include client-facing technology, intra-day reporting, and middle-office services in order to stay competitive, according to the paper. As a solution, fund administrators may team with a turn-key hosting provider, to offer clients a "shared" platform combining technology and middle-office services. This technology and services offering will result in considerable productivity gains, improved client retention, and increased revenue for the administrators, according to the paper.

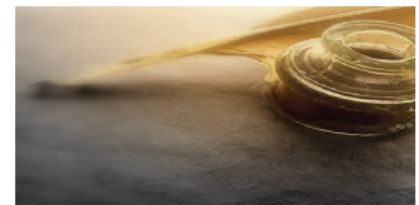
Shalaby concludes: *"The combination of outsourced software, hosting services, IT and application support, market data, and robust disaster recovery at a fraction of the current in-house cost structure is far too compelling not to become the standard operating model for the hedge fund industry. At the end of the day, the primary beneficiary of this new outsourced operating model is the investor, who is assured of greater transparency through better reporting and tighter oversight based on the integral relationship between the operations of the funds and their service providers."*



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